



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 23, 2008

S. 3023

Veterans' Benefits Improvement Act of 2008

As ordered reported by the Senate Committee on Veterans' Affairs on June 26, 2008

SUMMARY

S. 3023 would affect several veterans' programs, including housing, pension, burial, life insurance, and readjustment benefits. CBO estimates that implementing this legislation would incur discretionary costs of \$9 million in 2009 and \$169 million over the 2009-2013 period, assuming appropriation of the necessary amounts.

The bill also contains provisions that would both increase and decrease direct spending for veterans benefits. On balance, CBO estimates that enacting S. 3023 would decrease direct spending by \$7 million in 2009, \$29 million over the 2009-2013 period, and \$18 million over the 2009-2018 period. Enacting the bill would have no effect on federal revenues.

S. 3023 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) by placing new requirements on state governments, including public institutions of higher education that operate as lenders of student loans. CBO estimates that the aggregate costs of the mandate would be well below the threshold established in UMRA (\$68 million in 2008, adjusted annually for inflation).

Public institutions of higher education also would incur costs to implement a provision in the bill that would require those institutions, as participants in federal student loan programs, to refund tuition and fees to servicemembers if they must leave school because of military service commitments. However, those costs, estimated to total at least \$40 million in 2008, would result from conditions of a voluntary federal program, not intergovernmental mandates.

Section 311 of S. 3023 contains private-sector mandates as defined in UMRA. CBO estimates that the annual cost of those mandates would not exceed the threshold established in UMRA (\$136 million for private-sector mandates in 2008, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3023 is summarized in Table 1. The costs of this legislation fall mostly within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 3023, VETERANS' BENEFITS IMPROVEMENT ACT OF 2008

	By Fiscal Year, in Millions of Dollars					2009- 2013
	2009	2010	2011	2012	2013	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	9	39	51	53	17	169
Estimated Outlays	9	39	51	53	17	169
CHANGES IN DIRECT SPENDING^a						
Estimated Budget Authority	-7	-10	-13	1	-1	-29
Estimated Outlays	-7	-10	-13	1	-1	-29

Note: Components may not sum to totals because of rounding.

a. In addition to the direct spending effects shown here, enacting S. 3023 would affect direct spending after 2013 (see Table 3). The estimated net reduction in direct spending sums to \$18 million over the 2009-2018 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes the legislation will be enacted near the beginning of fiscal year 2009, that the estimated authorization amounts will be appropriated near the start of each fiscal year, and that outlays will follow historical spending patterns for existing or similar programs.

Spending Subject to Appropriation

S. 3023 contains several provisions that would increase spending subject to appropriation. CBO estimates that implementing the bill would result in discretionary outlays of \$9 million in 2009 and \$169 million over the 2009-2013 period, subject to appropriation of the necessary amounts (see Table 2).

TABLE 2. ESTIMATED CHANGES TO DISCRETIONARY SPENDING UNDER S. 3023, VETERANS' BENEFITS IMPROVEMENT ACT OF 2008

	By Fiscal Year, in Millions of Dollars					2009-
	2009	2010	2011	2012	2013	2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Extension of Authority for Medical Exams by Contract Physicians						
Estimated Authorization Level	0	35	47	49	13	144
Estimated Outlays	0	35	47	49	13	144
Human Resources Training						
Estimated Authorization Level	5	2	2	2	2	13
Estimated Outlays	5	2	2	2	2	13
Active Judges on the Court of Appeals for Veterans Claims						
Estimated Authorization Level	2	2	2	2	2	10
Estimated Outlays	2	2	2	2	2	10
Reports						
Estimated Authorization Level	2	*	*	*	*	2
Estimated Outlays	2	*	*	*	*	2
Total Changes						
Estimated Authorization Level	9	39	51	53	17	169
Estimated Outlays	9	39	51	53	17	169

Note: * = less than \$500,000.

Extension of Authority for Medical Exams by Contract Physicians. Section 604 would extend the temporary authority for the performance of medical examinations by contract physicians through December 31, 2012. Under current law, that authority expires on December 31, 2009. Although that authority has been in existence for several years, the Department of Veterans Affairs (VA) first used it in 2008. Based on information from VA, CBO estimates that, in 2009, VA will use the current authority to have about 37,000 exams completed by contract physicians at a cost of about \$900 per exam. CBO further estimates that if the authority is extended beyond 2009, VA would use contract physicians for about 47,000 exams a year. Taking inflation into account, CBO estimates that implementing section 604 would cost \$144 million over the 2010-2013 period.

Human Resources Training. Section 304 would require every federal agency to provide training to human resources personnel on the employment and reemployment rights under the Uniformed Services Employment and Reemployment Rights Act (USERRA) of federal employees who leave their positions to undertake military service. The training would be developed and provided in consultation with the Office of Personnel Management (OPM). Using information provided by OPM and the Department of Labor (DOL), CBO estimates that there are over 20,000 human resources professionals in the federal government. USERRA training, although currently available, is not required. CBO expects that most of the training would be Internet-based, with some individual conferences in large agencies or cities. Based on those assumptions and using information provided by OPM, DOL, and various human resource professionals, CBO estimates that implementing mandatory training for federal employees would cost \$5 million in 2009 and \$2 million annually in subsequent years.

Active Judges on the Court of Appeals for Veterans Claims (CAVC). Section 401 would increase the number of active judges on the CAVC from seven to nine. According to the CAVC, in 2007, the average annual cost for a judge's chamber—which includes salaries of the judges and their staff, infrastructure, and incidentals—was about \$1 million. Therefore, CBO estimates that implementing section 401 would cost \$10 million over the 2009-2013 period.

Reports. S. 3023 would require VA to complete a series of reports and studies for the Congress on varying topics and issues. Those issues include: VA's progress in addressing geographic variance in veterans' disability payments; the appropriate levels of disability compensation for service-connected disabilities and of long-term transition payments for veterans undergoing vocational rehabilitation; the effect of mortgage foreclosures on veterans; the employment needs of Native American veterans living on tribal lands; ways to assist and encourage veterans to complete vocational rehabilitation; and the feasibility of including acute and severe post-traumatic stress disorder under the traumatic injury protection insurance covered by Servicemembers Group Life Insurance (SGLI) program. Based on information from VA, CBO estimates that completing those reports would cost about \$2 million over the 2009-2013 period.

Direct Spending

S. 3023 contains provisions that would both increase and decrease direct spending. CBO estimates that, on net, enacting S. 3023 would decrease direct spending by \$7 million in 2009, by \$29 million over the 2009-2013 period, and by \$18 million over the 2009-2018 period (see Table 3).

TABLE 3. ESTIMATED CHANGES TO DIRECT SPENDING UNDER S. 3023, VETERANS' BENEFITS IMPROVEMENT ACT OF 2008

	By Fiscal Year, Outlays in Millions of Dollars ^a											2009- 2013	2009- 2018
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018	
CHANGES IN DIRECT SPENDING ^b													
Extension of Income Verification	-2	-4	-6	-5	-6	-6	-5	-5	-5	-5	-24	-50	
Guarantees of Mortgage Refinancing Loans	*	*	*	3	3	3	3	5	4	5	6	26	
Guarantees of Adjustable-Rate Mortgages	-4	-4	-4	-1	0	0	0	1	0	1	-13	-11	
Temporary Increase in the Maximum Loan Guarantee	-1	-3	-4	2	0	1	0	1	0	1	-6	-3	
Educational Assistance for Spouses of Severely Disabled Veterans	0	1	1	2	2	2	2	1	1	1	6	13	
Certification Requirement for Self-Employment On-the-Job Training	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>7</u>	
Total Changes	-7	-10	13	1	-1	1	1	4	1	4	-29	-18	

Note: * = less than \$500,000.

a. Annual changes in budget authority would be equal to the estimated changes in outlays.

b. Components may not sum to totals because of rounding.

Extension of Income Verification. Section 603 would extend authorities in current law that allow VA to acquire information on income reported to the Internal Revenue Service (IRS) to verify income reported by recipients of VA pension benefits. The authorization allowing the IRS to provide income information to VA was made permanent by Public Law 110-245, but the authorization allowing VA to acquire the information is scheduled to expire on September 30, 2008. Section 603 would extend VA's authority to acquire IRS data through September 30, 2011. According to VA, the department saved, on average, approximately \$5 million each year in new pension benefit payments by verifying veterans' incomes over the 2001-2007 period using the IRS data.

In 2007, the President signed into law Public Law 110-157, which includes a provision allowing VA to use the National Directory of New Hires (NDNH) database as an alternate source of income-verification data. That authority is set to expire on September 30, 2011. The NDNH database, though using more up-to-date information, does not include a large segment of the workforce that might self-report work income. The IRS data reflect information on self-reported income.

If VA were to use both systems over the three-year period from 2009 through 2011, CBO estimates that the incremental savings from utilizing the IRS data for income verification would be about \$2 million in new savings each year. Those savings would compound in subsequent years (rising to about \$4 million in year two, and so on), with cost-of-living and mortality adjustments, until 2011 when savings would decline after the authority to use IRS data expires. CBO estimates that section 603 would reduce direct spending by \$50 million over the 2009-2018 period.

Guarantees of Mortgage Refinancing Loans. Section 202 would authorize VA to provide the same maximum loan guarantee for veterans refinancing a non-VA loan as is provided for loans that are guaranteed by VA. Under current law, VA can provide a guarantee of only \$36,000 for refinancing non-VA loans compared with a guarantee of \$104,250 for refinancing VA loans. The section also would decrease the equity requirement for such refinancing loans from 10 percent of the loan amount to 5 percent.

Based on information from VA, CBO estimates that those changes would result in an additional 1,000 loans in 2009, increasing to an additional 2,000 loans a year in 2012 and subsequent years. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate reflecting relatively low default rates and the collection of up-front fees. However, certain loan fees will be reduced (under current law) on October 11, 2011, resulting in a positive subsidy rate after that date. Because most of the additional loans would occur after the loan fees are reduced, the additional loans would increase direct spending by \$26 million over the 2009-2018 period, CBO estimates.

Guarantees of Adjustable-Rate Mortgages. Section 203 would extend, through 2012, VA's authority to guarantee adjustable-rate mortgages and hybrid adjustable rate-mortgages. Adjustable-rate mortgages have interest rates that may change annually. Hybrid adjustable-rate mortgages have a fixed interest rate for an initial period of a few years, after which the rate may be adjusted annually. The authority to provide guarantees for such loans expires at the end of fiscal year 2008.

Based on data from VA, CBO estimates that extending that authority would result in an additional 1,400 loans a year. Because the VA loan guarantee program has a negative

subsidy rate during the period covered by the authority in section 203, those additional loans would increase receipts by \$13 million over the 2009-2012 period. CBO expects that some of those additional loans would become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. VA sells most vendee loans on the secondary-mortgage market and guarantees their timely repayment. Those vendee loans carry a positive subsidy, reflecting their potential defaults. Thus, the increased receipts for the new VA guarantees of adjustable-rate mortgages would be slightly offset by an additional \$2 million in subsidy costs related to vendee loans. In total, extending the authority to guarantee adjustable-rate mortgages would reduce direct spending by \$11 million over the 2008-2018 period.

Temporary Increase in the Maximum Loan Guarantee. VA can provide lenders a guarantee of up to 25 percent of the value of home-acquisition loans made to veterans. Under current law, the maximum loan amount for which VA can provide a 25 percent guarantee is the Freddie Mac conforming loan limit of \$417,000. Section 201 would increase the maximum amount of the loan for which a veteran could receive a 25 percent loan guarantee to 125 percent of the area median home price, not to exceed 175 percent of the current Freddie Mac limit, or \$729,750. The authority to increase the guarantee would expire on December 31, 2011.

Based on nationwide mortgage data and information from the VA, CBO estimates that a total of 4,700 additional guaranteed loans would be made for an average loan amount of 10 percent more than the amount of the current maximum guarantee. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about 0.4 percent. Because of that negative subsidy rate, CBO estimates that the added loans and higher loan amounts would increase receipts by \$8 million during fiscal years 2009 through 2011. However, certain loan fees will be reduced on October 1, 2011, resulting in higher subsidy rates. The additional loan guarantees that CBO estimates would occur in the final quarter before the authority expires would thus increase subsidy outlays by \$2 million.

CBO expects that some of those additional loans would become delinquent and go to foreclosure. As noted above, when a guaranteed loan goes into foreclosure, VA often acquires the property and issues a vendee loan when the property is sold. CBO estimates that the subsidy cost for those vendee loans in subsequent years would total \$3 million over the 2014-2018 period.

Taking into account the initial savings estimated for new loan guarantees and the expected costs for vendee loans, CBO estimates that this provision would reduce direct spending by \$6 million over the 2009-2013 period and by \$3 million over the 2009-2018 period.

Educational Assistance for Spouses of Severely Disabled Veterans. Section 312 would allow spouses of veterans who are permanently and totally disabled to use education assistance over a 20-year period. Under current law, eligible spouses have a 10-year window in which to use their benefits.

CBO estimates that nearly 6,000 spouses would be eligible for the extended entitlement period during some or all of the next 10 years. The Department of Defense reports that more than 9,000 veterans have separated from the armed forces with a permanent, total disability over the last 20 years. Of those 9,000 veterans, about 65 percent have spouses or children. CBO anticipates that more than 2,000 spouses will be eligible for the benefit each year and that 10 percent would use the benefit annually. CBO expects that the approximately 200 users each year would receive an average benefit that would equal \$5,200 in 2009 and would grow by an annual cost-of-living increase thereafter. Therefore, CBO estimates that, over the 2009-2018 period, enacting section 312 would increase direct spending by \$13 million.

Certification Requirement for Self-Employment On-the-Job Training. Under section 316, veterans participating in on-the-job training for self-employment or operation of a franchise would no longer be required to provide VA certification that they are being paid for the training and that the training will lead to employment. Because self-employment and franchise training are typically unpaid, veterans pursuing those goals who are otherwise eligible to receive payments for training are effectively excluded due to the existing requirement that they certify that they are being paid for the training.

CBO estimates that most of the veterans receiving on-the-job training benefits under section 316 would be franchise owners. The International Franchise Association runs a well-publicized program that enables veterans to purchase franchises at discounted rates. Based on information from the association and other national franchise information, CBO estimates that under section 316 about 400 veterans annually would purchase franchises and qualify for on-the-job training benefits during their training period. For a typical training period of five weeks, veterans would receive around \$1,600. In total, CBO estimates that enacting section 316 would increase direct spending by \$7 million over the 2009-2018 period.

Automatic Cost-of-Living Adjustment (COLA). Section 103 would provide a permanent annual cost-of-living adjustment to the amounts paid to veterans for disability compensation and to their survivors for dependency and indemnity compensation. The COLA would equal the cost-of-living adjustment payable to Social Security recipients. The increase would take effect on December 1 of each year, and the results of the adjustment would be rounded to the next lower dollar.

The COLA that would be authorized by this bill is assumed in CBO's baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33) and extended to 2013 by the Veterans Benefits Act of 2003 (Public Law 108-183). Because the COLA is assumed in CBO's baseline, this provision would have no budgetary effect relative to that baseline. CBO estimates that the COLA for 2010, which would take effect in the second quarter of fiscal year 2010, would equal \$1.2 billion. The full-year cost of that increase would equal \$1.6 billion. Similar increases are estimated in subsequent years.

Other provisions. The following provisions would have an insignificant impact on federal direct spending:

- Section 204 would allow severely disabled members of the armed forces to receive certain housing grants from VA before they leave the service. CBO expects this provision would affect very few individuals and, in most cases, would serve only to accelerate the benefit by several months.
- Section 301 would extend the 24-month limitation on receiving Independent Living assistance for severely disabled veterans of the war on terrorism. The Independent Living program provides services to maximize independence in daily living for veterans who are too severely disabled to pursue employment. Based on current program usage rates from VA, CBO estimates that fewer than 20 veterans will use more than 24 months of Independent Living services.
- Section 602 would grant eligibility for VA-provided memorial headstones to certain deceased surviving spouses of veterans. Based on information from VA, CBO expects that there would be very few requests for VA-memorial headstones from the survivors of those surviving spouses.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Intergovernmental Mandates

Currently, fewer than 20 public institutions of higher education make or originate Federal Stafford Loans to graduate students under the Federal Family Education Loan program. S. 3023 would prohibit those institutions from applying an annual interest rate higher than 6 percent on student loans made to servicemembers during their period of military service. The duty to comply with the interest rate cap would be an intergovernmental mandate as

defined in UMRA. Because Graduate Stafford Loans (both subsidized and unsubsidized) currently have a fixed interest rate of 6.8 percent through 2013 and because the provision would apply to a small number of individuals attending fewer than 20 public institutions of higher education, CBO estimates that the mandate costs to governmental entities, in the form of lost interest revenue due to the cap, would be small and would not exceed the threshold in UMRA (\$68 million in 2008, adjusted annually for inflation).

Other Impacts

Public institutions of higher education that participate in federal financial aid programs also would be required to extend educational benefits to servicemembers because of their military service. However, those requirements would not be intergovernmental mandates as defined in UMRA, but rather conditions of participating in a voluntary federal program.

Public institutions of higher education would be required to refund tuition and fees paid by servicemembers who had to leave school because of military service commitments. In addition, those institutions would be required to provide servicemembers who discontinued an educational program because of military service an opportunity to reenroll with the same educational and academic status held prior to their military service. Information from state and higher education officials indicate that public institutions of higher education in approximately half the states already extend similar benefits to servicemembers either because of state law or institutional policies. Public institutions that do not extend these benefits would be required to do so because of their participation in federal financial aid programs. CBO estimates that those institutions would incur costs of at least \$40 million in 2008. Costs could be higher because enrollment data for all servicemembers attending public institutions of higher education, including active-duty members, were not available for this analysis. The CBO estimate includes only costs associated with members in the reserves who might discontinue their education because of military service.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains private-sector mandates as defined in UMRA. Section 311 would require institutions of higher education to refund tuition and fees paid by students called to military service, for the portion of the education program for which such servicemembers did not receive academic credit. Section 311 also would limit the interest rate on student loans to 6 percent per year for servicemembers during their period of military service.

CBO expects that the number of servicemembers called to military service while enrolled at an institution of higher education would be small. Based on estimates of total student loan debt for servicemembers entering the military, CBO also expects that the annual costs to lenders resulting from a reduction in the maximum allowable interest rate for those loans also would be small. Thus, CBO estimates that the total cost of the mandates would be below the annual threshold established in UMRA (\$136 million for private-sector mandates in 2008, adjusted annually for inflation).

PREVIOUS CBO ESTIMATES

On July 17, 2008, CBO transmitted a cost estimate for S. 2617, the Veterans' Compensation Cost-of-Living Adjustment Act of 2008, as ordered reported by the Senate Committee on Veterans' Affairs on June 26, 2008. On May 12, 2008, CBO transmitted a cost estimate for H.R. 5826, also titled the Veterans' Compensation Cost-of-Living Adjustment Act of 2008, as ordered reported by the House Committee on Veterans' Affairs on April 30, 2008. Section 103 of S. 3023 is similar to both S. 2617 and H.R. 5826. However, section 103 would automatically increase benefit levels for disability compensation and dependency and indemnity compensation each year by the same COLA that Social Security recipients would receive. S. 2617 and H.R. 5826 would only make the adjustment for 2009. Because the COLA is assumed in CBO's baseline, those proposals would have no budgetary effect relative to that baseline.

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